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European Association of Paritarian Institutions of Social Protection

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AEIP's input to EIOPA's public consultation on the revised Decision on regular information request towards NCAs regarding the provision of occupational pensions information

Do you have any general comments on the Consultation Paper?

- The current reporting requirements became applicable only 2,5 years ago. These requirements were in line with the initial requests made by EIOPA. We see no compelling arguments that justify amending these requirements today, given the cost impact of these changes especially for small and mid-sized IORPs. It is too early to have a review of the previous information request. It would be only appropriate to initiate potential new requirements after the review of the IORP II (which is still in the process of full implementation). Any new detailed reporting requirements should benefit the IORPs and its members and beneficiaries.
- The threshold for IORPs having to report individually should be updated and be increased e.g. to 1,5 billion EUR.
- EIOPA looks at reporting requirements to NSAs in different countries and increases the reporting requirements in all EU countries to the highest level applicable in other countries, regardless of the need of this information for supervision. This goes against the principle of minimum harmonization in IORP II. For this reason, in some MSs with highly developed pension funds these new requirements of EIOPA are in line with existing reporting requirements at national level (e.g. the Netherlands).
- Some of the additional reporting requirements are being justified by EIOPA in order to allow comparison. However, the heterogeneity in Europe, not only between different countries but also within member states does not allow comparisons. These comparisons can only lead to wrong conclusions.
- The data collected are not relevant for all IORPs (e.g. In Belgium, DC schemes with a sponsor guaranteed return are internationally qualified as DB schemes. In the national balance sheet those plans' technical reserves are similar to those of a traditional DC scheme. They are not based on future cash flows).
- The detailed information on derivatives that is requested on a quarterly basis to all IORPs in scope of the aggregate reporting requirements is not proportionate. It neglects the fact that in nearly all member states IORPs make limited use of derivatives and only for hedging risks. The reporting cost for derivatives might force some IORPs no longer to use derivatives and will as such increase their risk exposure. At least a reasonable threshold for collecting detailed information on derivatives should be introduced. One idea could also be to lower the reporting requirements for derivatives specifically used for hedging purposes.
- As was already highlighted in the previous consultation on reporting requirements EIOPA should make use of information that is already collected by the European Institutions. This is specifically

the case for the requested information on the look-through for UCITs where all detailed information on UCITs is already collected.

- The attempt to include ESG relevant information seems not thought through. For some new columns it is unclear how this would give better insights in the context of ESG, whereas other more relevant data is not requested. Our proposal is to postpone at least this part of the adjustments to the reporting requirements as there are other developments concerning this topic that are still ongoing (e.g. EU-Taxonomy for ESG, SFDR, etc.).
- When additional data is required by EIOPA, it always should be taken into account if the additional insights for EIOPA make up the cost for this additional data for the IORPs, which in the end are mainly paid by the beneficiaries through lower pensions. The costs are often significant, as it requires adding additional data providers or buying additional licences.

Q1. What are your views regarding the proposed implementation timeline?

- We would like to encourage EIOPA to align as much as possible with the local authorities in order to make sure the timeline is the most optimal in light of other (reporting) changes, according to the minimum harmonization principle of the IORP II Directive.
- The proposed timeline is very ambitious. Some of the new requirements are major changes and require (expensive) IT implementation:
    - All IORPs that have to provide the quarterly data (list of assets) will have to provide the NACE codes on a quarterly basis. Today this information has only been requested every three years in the context of the stress test exercise to a limited number of IORPs. In many cases this involves manual work as this is not standard information provided by the asset managers.
    - The information required on derivatives also requires major IT implementations even for small IORPs that only make limited use of derivatives.
    - The information to be provided in the look-through approach of UCITs is not standard information that is provided by the fund managers and therefore requires tailor made reporting not only for the IORP but for the fund managers as well.
    - Belgian IORPs administering Belgian DC plans with sponsor guaranteed minimum returns are qualified internationally as DB schemes. For those plans, the technical reserves are NOT equal to a discounted cash-flow. Cash-flows are not used to calculate the technical reserves. Having to provide cash flow information on an annual basis will require major IT implementations to them without providing any additional benefits to the IORP, its members and beneficiaries. We therefore propose to exclude these types of plans from providing cash-flow information as this will only lead to wrong conclusions.
- It seems obvious that a review should only take place after the review of IORP II. If the current level of detail in the reporting requirements on NACE codes, cash flows and derivatives is maintained first reporting should not be before December 2024.

- We would urge that EIOPA also will align adjusting the reporting standards, definitions, and templates etcetera with ECB, since also IORP data is reported to ECB. In that way the burden and costs for IORPs as well as for supervisors and national banks can be as light as possible.

Q2. What are your views on the general costs regarding implementation? How could the relevant amendments be addressed in a most cost-effective way?

- The most effective way to implement the proposals of this paper is to make sure that input on local level and European level are aligned as much as possible on both definitions as on items to be reported. Alignment with ECB is important here as well. Also, alignment and consistency with definitions by OECD, which are being used in the pension sector is important.
- The implementation cost will be high, especially for small IORPs that will have to report on NACE codes, cash flows and derivatives.
- Additional costs arise especially from including new data provider or purchasing additional licences to get access to the required data.
- To reduce the cost for the industry following amendments should be made:
    - The threshold for IORPs that have to report individually should be increased (e.g. to 1,5 million EUR)
    - A threshold should be introduced for IORPs that have to report detailed information on derivatives
    - EIOPA should use the data available on UCITs in the EU and not request look-through information from the IORPs
    - Cash flow information should only be requested if relevant (e.g., not for Belgian DC schemes with sponsor guaranteed minimum returns)

Questions on the balance sheet

Q3. Do you agree that these changes would reduce complexity and ensure consistency in the reporting of the fields on the asset side of the balance sheet (YES/NO)? Please explain if not.

- Not necessarily - we understand that for bigger pension funds the cost implication of this proposed change will be minimal, especially, considering that such data is already available at national level. However, for MSs with smaller pension funds the implementation today will introduce an additional cost for the IORPs. The changes in the balance sheet should have been a cost reduction if they were implemented from the start in the previous reporting requirements. The added value is very limited and provide no added value to the IORP and the members and beneficiaries.

Q4. Are there any data points added which you consider unnecessary for IORPs? Do you consider additional data points which have not been included but which would be necessary for IORPs balance sheet?

- The added value of the additional data points is limited for the IORP and the members and beneficiaries and only introduces additional costs for the IORPs.
- No need for additional data points.

Q5. How do you assess the costs resulting from the changes to the balance sheet in the EIOPA BoS Decision, templates and instructions (low-medium-high)? Please explain.

- Medium. But unnecessary given the limited added value, disproportionate for small and medium sized IORPs as no added value to the IORPs or the members and beneficiaries. The balance sheet changes are more a matter of specifications than a matter of radical change. The specifications should be available already for other reporting purpose, so we do expect low costs resulting from the proposed change.

Questions on cross-border

Q6. Do you agree that these changes are necessary for EIOPA in order to monitor cross-border developments? Please explain if not.

- Yes

Q7. Do you agree that the impact of these changes are fairly limited resulting in low costs considering that the information should already be available? Please explain if not.

- Yes

Costs and Expenses

Q8. Do you agree that adding an additional column specifying the reporting basis should enhance comparability between the reported datasets? Please explain if not.

- No. The heterogeneity in the EU but even within a Member State between IORPs, and the pension plans they administer, does not allow a comparison of costs. In addition, the information on the "costs paid by the sponsor "is not available to the IORPs and often even not known by the sponsor (e.g. when the sponsor has many different plans using many different funding vehicles that are being managed collectively).

- The cost categorization required is not available at the moment. Implementing it would lead to significant burden.

Q9. Do you agree that the impact of these changes are fairly limited resulting in low costs considering that the additional information is an alternative for the current information? Please explain if not.

- From the perspective of smaller IORPs, there will be high impact of additional reporting requirements, resulting in a cost increase related to collecting the additional information. In our view, IORPs should continue to report according to national accounting principles. In order to ensure comparability between MSs, the NSAs could support EIOPA in understanding the reporting principles that are applicable in the different MSs.
- The cost of an IORP is very much linked to its size, scale, nature, complexity of its activities. We fear EIOPA looks at IORPs as products that are sold across EU neglecting that often these products are fully tailormade and as such that costs differ because the product is totally different. Therefore, we do not believe in the objective of cost comparability and creating pressure to reduce costs.
- Given that sponsors and employees often manage the IORP, their interests are aligned. An IORP is mainly a not-for-profit organisation with a social purpose and not a financial player selling retail products to an end user.
- The collection of cost data is not giving any added value to EIOPA, nor to the NCA but is creating extra burden for the IORPs and carving out pension benefits for the IORPs members and beneficiaries.

List of assets

Q10. Do you agree that these changes would help EIOPA to better analyse the asset data received including on ESG (YES/NO)? Please explain if not.

- No. It is true that more data analysis is possible when more detailed information is requested but the additional cost to provide this information is not in balance with the added value of the additional analysis that can be made. IORPs using external asset managers often receive aggregate information on their total portfolio and not on an asset-by-asset basis. To them these additional requirements imply a high cost. Is this detailed information really required in all member states for all IORPs?
- The EU sustainable finance taxonomy regulation will give an indication of exposure to the various (NACE) sectors. To have a better picture of these exposures, using more granular NACE sub codes (4 digit) would provide better insights, but this information will not necessarily be available for all IORPs (and thus will increase the reporting burden and costs). Even if these more granular NACE information would be available, this will not give a fair picture of the ESG risks resulting from the portfolio held by the IORP (as the voluntary climate stress test of EIOPA's IORP stress test 2022 – in expectation - will show).

Depending on the purpose, different ESG information is necessary. The data (market) for these types of ESG information is developing and changing. Many IORPs will not have these information readily available and market standards still have to be developed. We give in consideration to wait until standards have developed and these forms of ESG data is being used more regularly by IORPs.

Q11. Are there any fields added which you consider unnecessary for IORPs?

- Yes. Most IORPs work with external asset manager and don't need a lot of the requested information for each individual asset e.g. they have aggregate information on sector allocation and not individual information based on NACE codes. They also don't need that individual information; aggregate information is sufficient to do their risk analysis. The same applies to ratings.
- In our opinion there are a few fields unnecessary for IORPs. Firstly, crypto assets will not be in the investment portfolio as long crypto is not under regulation. Secondly, we don't understand the need of the RLGA details in relation to investment risks.

Q12. Do you consider the changes also useful for IORPs' own reporting or risks assessments? Are (some of) the additional fields already available at IORPs? Please explain.

- No. Aggregate information is sufficient.
- We do not consider the changes as useful for IORPs own reporting or risk assessments. IORPs have most of the information they need for risk assessment and reporting available and are working on additional measures with regards to ESG.

Q13. Which additional data, not included in the suggested amendments do you use or do you consider necessary for IORPs' risk assessment concerning emerging risks, ESG requirements or other tasks (e.g. would participations be useful)?

None. The EU is developing an integrated sustainability reporting system through the SFDR and CSRD, linked together through the ESAP. Under the SFDR IORPs are required to report on a number of different ESG issues, such as their policies on ESG risks, the environmental and social characteristics of the pension scheme, Taxonomy exposure and Principal Adverse Impact indicators. We strongly urge any further need for ESG data to be integrated in this reporting regime during the upcoming reviews, rather than developing a parallel reporting regime through statistical reporting.

Q14. Currently, EIOPA came across data quality issues related to the reporting of the external rating which are often left blank. Could you please explain what the difficulties are in order to report this field or what could potentially trigger them?

- Many pension funds use external asset managers. They receive aggregate information on ratings and not on an individual asset basis. This information is sufficient to perform their risk analysis. Receiving individual information would imply a cost increase without added value.
- In case an IORP uses a look-through approach, they often don't licence every rating agency due to the high costs. So, there are constellations where the one agency licenced does not provide a rating for certain bond or equity whereas the other rating agencies do.
- To be able to have decent rating and data quality on this matter a more mature set of data, definitions and providers is needed.

Q15. How do you assess the costs resulting from the changes to the List of Assets in the EIOPA BoS Decision, templates and instructions (low-medium-high)? Please explain.

- High. EIOPA refers to some of those data (e.g. NACE) already being provided in the context of the Stress test exercise. This is a misleading argument because in the context of the stress test this information was collected manually, only requested every three years and only provided by a limited number of IORPs. Also, in the context of the stress test, it was argued that data on NACE codes is not steadily available and as such creates administrative burden with an unneglectable cost label linked to it. Therefore, the industry suggests using other ways to capture this type of information, e.g. ISIN codes combined with the use of the Centralised Securities Database or using the Global Industry Classification Standard, the so named GIC codes which is more common used in the investment world. The new EIOPA requirements require IT development not only from the IORPs but also for the asset managers.
- If EIOPA requests NACE codes, it should provide a complete transposition table between GIC codes (and not only for taxonomy aligned activities as was the case in the stress test exercise).
- Even in highly developed pension markets the cost is medium, due to implementation of additional data (i.e. licensing costs and building/maintaining infrastructure) as well as setting up the (reporting) tooling.

Look-through

Q16. Do you agree that a complete overview of the exposures is needed, including UCITs to conduct proper analysis on the potential market risks (YES/NO)? Please explain if not.

- No. We believe the transitional exception for the reporting of UCITS should not be changed now. In some cases, aggregate information provided by the external asset managers is sufficient. Also depends on the complexity of the investments.

- As was already highlighted in the previous consultation on reporting requirements, EIOPA should make use of information that is already collected by the European Institutions. This is specifically the case for the requested information on the look-through for UCITs where all detailed information on UCITs is already collected.

Q17. Do you consider it necessary that IORPs understand their exposures for their own reporting or risks assessments? Please explain.

- IORPs for sure need to understand their exposures in order to be able to manage them, but they don't need this new reporting requirements to achieve this goal.
- IORPs are familiar with risk management for many years. To analyse the risk they make use of information that is available based on good market practice. Making use of another classification does definitely increases the costs but is not proven to be better risk management.
- Decomposing a UCIT to do your own risk management on the separate pieces is not always leading to better risk management but again is definitely creating higher costs. Furthermore, the logic behind lists of individual pieces of assets comes from Solvency II where each individual asset generates its own capital requirements – other than that, even in insurance companies, risk management decision making is not (and, obviously, cannot be) taken on the level of individual assets!
- How much cost can a small IORP afford? Is this extra cost generating better insights in the risk? Is it worth it? Or is it to have nice data in a EU report? Do we generate better pension benefits?

Q18. How do you assess the costs resulting from the removal of the transitional on UCITs in the EIOPA BoS Decision, templates and instructions (low-medium-high)? Please explain.

- High. This information is not standardly available with the asset managers in all MSs. As was already highlighted in the previous consultation on reporting requirements EIOPA should make use of information that is already collected by other the European Institutions (i.e. ECB). This is specifically the case for the requested information on the look-through for UCITs where all detailed information on UCITs is already collected. The Tripartite Templates (TPT) where EIOPA could get its information from by itself or at least adjust the funding requirements that match the information provided in the TPTs could be also pointed out.

Derivatives

Q19. Do you agree that additional data on derivatives is needed, in order to properly assess the risks stemming from derivatives investments (YES/NO)? Please explain if not.

- No. Few small and medium-sized IORPs in most MSs make use of derivatives. The few who do make use of derivatives use them for currency hedging. Except for very few MSs, in general, there is no need for extensive quarterly reporting on these derivatives which are only used to reduce the risks in the portfolio. On the contrary, introducing such excessive reporting requirements might result in some pension funds no longer using currency hedging and as a result increase their risks. Therefore, we suggest limiting this type of reporting to those Member States where IORPs making use of derivatives is material. NSAs are best placed to make this judgement.

Q20. Do you agree that the reporting of derivatives is proportionate as IORPs should understand their exposures to derivatives for their own reporting or risks assessments? Please explain.

- No. See comment on Q19

Q21. How do you assess the costs resulting from the potential inclusion of mandatory derivatives reporting in the EIOPA BoS Decision, templates and instructions (low-medium-high)? Please explain.

- It varies from country to country. In most MSs IORPs make limited use of derivatives but the excessive reporting does not take this into account (e.g. in the Netherlands specifications can be made available and costs could therefore be low). The cost of quarterly and annual detailed reporting will be extremely high compared to the use of these instruments and the associated risks, if any. The instruments used do not require such reporting. The NSA is best placed to determine if and when additional information is required.

Technical Provisions

Q22. Do you agree that there is a need for a comparable basis if EIOPA wants to assess risks at EEA level? Please explain if not.

- Not necessarily. EIOPA is already performing stress tests to assess the risks related to liabilities and assets under certain scenarios.
- We recommend that EIOPA uses currently available data as much as possible.

Q23. Do you agree that cash-flows should also be collected by IORPs for their asset liability management and to check on liquidity risks?

- It is true that most IORPs use cash flow information for their ALM study but only every three years and not annually. However, those cash-flows not necessarily add-up to the technical reserves.
- ALM is a tool that needs considerable time to implement and mature. ALM for pension benefits that re-sets every year is, by definition, not ALM. Close cash-flow monitoring for ALM purposes implies high sensitivity to market conditions that is simply not fit with the long-term and countercyclical character of IORPs.
- Many IORPs have very limited or no liquidity risks and only need cash flow information for a limited time horizon. In addition, liquidity risk exists for both DB and DC schemes, yet EIOPA only requests cash flow information for DB schemes.
- For some types of DB schemes (e.g. defined contribution plans with sponsor guaranteed returns) the cash flow information is of little relevance. In some type of plans the cash flows that are collected in the context of an ALM also depend on the projections of the assets.
- Some IORPs to provide this information every three years in the context of the EIOPA stress test. Given the NSA is responsible for prudential supervision, we believe this information in the context of the stress test should be sufficient. If EIOPA would like intermediate figures, a roll forward could be applied.
- Is it worth it for small IORPs to generate this extra cost if a simple roll forward is fit for purpose: having a full data set across EU, serving for risk management at EU macro level.

Q24. Which of those options would you consider most fit for purpose? Please explain. Are there other options not included in the above that would serve EIOPA's objectives and should be considered?

- From the options in EIOPA's consultation paper, we have a preference for option 2. Our second choice would be option 1.
- Given the heterogeneity between IORPs and the pension plans they administer we see no added value for EIOPA to request this additional information. The legislator understood this when introducing a minimum harmonization in IORP II. For many small IORPs providing this information will only result in additional cost with no added value for the IORP or the supervisor.
- We see no need for EIOPA to collect this additional information. No conclusions can be deducted without also taking into account the details of the underlying liabilities, the plan details, etc. Analysis on these data can only lead to wrong conclusions.
- Cash flows (aggregated) give a fact-based overview of data without interpretation and assumptions /definitions which are needed to do sensitivity analysis. We would propose to create the sensitivity analysis on EIOPA level. It's easier to have the data available to do the analysis on a higher level than to interpret the sensitivity analysis done on IORP level.

Q25. How do you assess the costs resulting from each of the options (low-medium-high)? Please explain.

- Varies from country to country. For many IORPs this is information they do not have and information that is not relevant to them. We consider that in this case, the costs for all proposed options will be high. For those IORPs that collect this information in the context of an ALM, they do so on a three-year cycle and not annually. For example, in Belgium, DC schemes with a sponsor guaranteed return are internationally qualified as DB schemes. In the national balance sheet those plans' technical reserves are similar to those of a traditional DC scheme. They are not based on future cash flows. For them the cost to calculate cash-flows is high and adds no benefits to the IORP, its members and beneficiaries.
- In some countries data is already readily available and the resulting costs could be medium to low in this case.

For further information on AEIP's consultation response: Aleksandra.kaydzhiyska@aeip.net